FOCUS ON NIGERIA

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State of Play

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NIGERIAN FINTECH

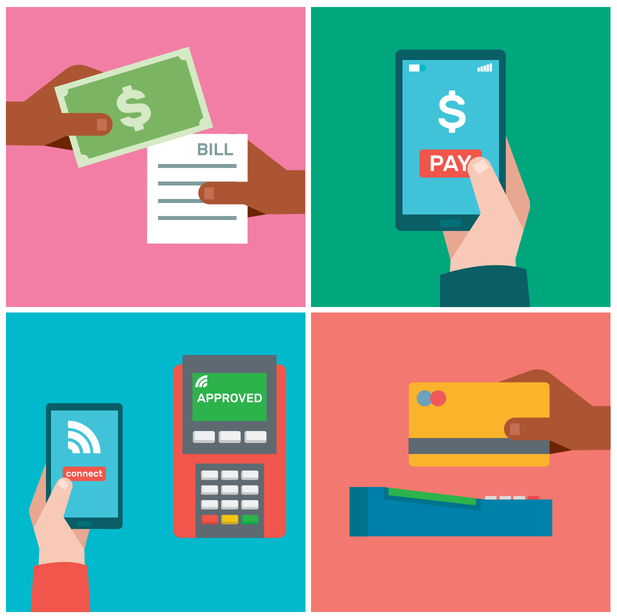
Disruptor and Savior

Financial technology has been widely proclaimed both the savior of the "new economy" and an existential threat to the old world order. Amid hyperbole and huge numbers been thrown around, however, many such companies are truly making a difference in Nigeria. After all, they are attracting more than half the money raised by tech firms. "I have always believed that the world should show a special interest in Africa. Particularly at this point in time when African economies are moving away from their reliance on commodities and towards knowledge and innovation." explains the Minister of Science and Technology, Dr. Ogbonnaya Onu.

These startups are leveraging tech to tackle financial problems in Nigerian society. "The FinTech industry plays a major role in terms of economic development. We are 200 million people and almost 15% of these are financially excluded", Dr. Babatunde Obrimah, Chief Operating Officer of the Fintech Association of Nigeria. Mrs. Toki Mabogunje, President of the Lagos Chamber of Commerce and Industry explains the prime factor: "Technology is a catalyst for business growth. It is, therefore, important for businesses to embed technology as a core driver of growth, to gain global competitiveness and enhance profitability."

Nigeria, Africa's largest country by GDP and population, is among the continent's fintech leaders with a lively crop of start-ups and a growing suite of digital offerings from mainstream banks and other companies. COVID-19 speeded up the rate of online developments immensely. Virtual meetings, teleworking and digital payments were propelled into a daily fact of life for millions of Nigerians. Fintech revenues are forecast to reach an estimated US$543m by 2022, driven by increasing smartphone penetration and its unbanked population. What solutions are Nigerian fintech providers focusing on? How healthy is the broader ecosystem in terms of venture capital investment, skills and the regulatory environment? What are the key challenges and bottlenecks facing the country as its fintech sector matures? This isn't just about fintech companies. This affects the entire economy and society directly. Africa can lay claim to having laid the foundations of fintech with the mobile money revolution springing out of Kenya back in 2007. Today, it remains a front-runner in financial innovation:

Amidst this surge in interest by investors however regulators around the world are facing unique new challenges that this emerging sector poses. Nigeria has climbed rapidly in the ease of doing business charts over the past five years and is forging ahead. "Nigeria has so many very intelligent people. There is nothing that can stop us if



we put our minds to something" summarises Hon. Minister Ogbonnaya Onu. Mrs. Toki Mabogunje of LCCI along the same lines: "There has been a sustained increase in the number of youths that are IT entrepreneurs, providing different services ranging like sales and repairs. According to the National Bureau of Statistics, the IT sector contributed 9.2% to the Gross Domestic Product in the third quarter of 2019."

The Economist Intelligence Unit has produced a timely and in depth research which brings this all to life and it will be presented and discussed in this unique online event. Globally, the fintech sector is among the most appealing for investors looking for the next wave of disruptive innovation but it is more than that. Digital "neo-banks" are expanding their market share, especially among younger consumers, while bespoke apps and platforms are taking once-elite financial services, such as stock market investing, into the mainstream. Can the regulatory environment keep up? While not perfect, it is well-regarded by companies and academic experts for its balancing of innovation with customer protection. Opening up licensing to new players, bringing down fees and charges, and encouraging the business ecosystem by opening up access to capital markets are all signs of an accommodating legal environment that will increase competition. Ensuring that regulation keeps up with innovation by using sandboxes can support the next wave of fintech growth in Nigeria. As the ecosystem matures, skills gaps are emerging outside of programming and product development in areas like marketing, communications, and business management. Fintech can not only prove to be a catalyst to solving social problems but also a serious job generator. And domestic success stories will only inspire new waves of fintech.

These are exciting times for this dynamic market, best summarized perhaps by Dr. Obrimah: "We must focus on technology on all levels, from government down to the private sector. We are waking up as a country after our reliance on oil. Technology is changing. We will either innovate or die." The pandemic is a once in a lifetime opportunity to bring new digital tools and ways of thinking into daily life extremely quickly. But we need the best available information with which to make decisions, the unique insight of EIU, a proven international market leader. In the end, fintechs themselves are betting on Nigeria's business dynamism and the energy of its entrepreneurs. With the help of invaluable insights from the EIU this sector could be the key to unlocking Nigeria's potential to leapfrog ahead.

MTN

Ain't no mountain high enough!

The telecommunications business is not only highly competitive but fast-changing in terms of technological change. MTN has consistently managed to be the dominant player in Nigeria through consistent innovation and a focus on customers. "We believe trust must be earned and despite our brand recognition. It is an ongoing thing" explains MTN CEO Ferdinand Moolman. "We want to build relationships, where our customers are no longer merely buying products or service, but buying an experience based on a conviction that we are good for them. Over 60% of the adult population has never been banked; 36.8% are financially excluded; we have a high dependency ratio that is close to 85%.

It is an extremely challenging environment but Mr. Moolman is confident. "We believe that there remain opportunities to expand access to voice services in Nigeria. In terms of broadband penetration, we are currently at around 38%. Mobile Financial Services (MFS) is another area where we see significant growth potential. MTN has successfully deployed Mobile Money in 16 markets out of its 21 operations. Experience from those deployments has shown the significant socio-economic transformative capabilities of MFS."

At a time when an increasing number of communications seems to be taking place outside the control of both local players and regulators, MTN is dynamically embracing and integrating available technologies. "Dealing with the challenges involves a combination of strategies which include identifying opportunities for collaboration such as Facebook free basics and deploying innovative services with which we can compete. There's also an argument for licensing and regulatory frameworks that would enable MNOs to innovate with the same flexibility as OTTs and launch into connected verticals such as mobile financial services, digital content broadcast that is primarily provided over our networks). These are important conversations with the government, and finding the right balance is a process of engagement and collaboration."

MTN is developing various financial services and MoMo has been touted as a gamechanger. "Our MoMo agent services allow customers at the last-mile access to financial services. Customers can pay for bills; send and receive money; buy airtime/data and a lot more. We are looking to provide customers with additional services such as lending and micro-insurance. Getting the infrastructure right means optimizing spectrum allocation, securing broad alignment on right of way charges and how they evolve and protecting the infrastructure once it is built to prevent disruption. Constant engagement and conversations between regulator and regulated are essential to ensure we are achieving the growth we both want. That's something we've seen happening more and more and it's a great sign."

Mr. Moolman explains how the market is evolving: "Earlier this year we announced a commitment to spend a further $1.6 billion on capital expenditure over the next three years. The absence of reliable public power supply, vandalism, and theft of network infrastructure and insecurity in parts of the country means that the investment needed to maintain and protect the infrastructure we build is significant. These are challenges that we are used to facing."

Ferdi Moolman
CEO MTN NIGERIA

> *"We want to build relationships, where our customers are no longer merely buying products or service, but buying an experience based on a conviction that we are good for them."*

MTN is an important part of Nigerian life and culture. "It is incredible to think about the businesses that have been built off the back of our network, and the way in which that connectivity has helped Nigerian culture, music, art and so many other things become more accessible to the world. Just look at how Nigerian music and art is growing on the world stage today. We decided to take a specific and deliberate approach to driving sustainable CSI in Nigeria. Today, the Foundation has over 750 project sites in the 36 states and the Federal Capital Territory. The key focus areas are mother and child healthcare, youth empowerment and arts and culture, and to date, we have spent over N21 billion on the projects benefiting over 1,856 communities across the country."

It is not hard to understand how MTN is so successful. Mr. Moolman summarises the way ahead. "2020 is going to shine the light even more brightly on the role of the private sector in achieving development goals. We have 10 years to achieve the ambitious targets set out in the Sustainable Development Goals of 2015 and we have lots of work to do."

CHAMBER OF COMMERCE
Working for finance in Nigeria for 130 years

In 1888, when the Lagos Chamber of Commerce and Industry was founded, the population of Lagos was near 40,000. For anyone that has studied the growth of this amazing city, the work of the Chamber is closely tied to developments. It is the foremost private sector group in Nigeria with over 2,000 corporate members. It also accounts for an estimated 60% of industrial output, 65% of general commerce and 75% financial services in the country. "An efficient financial system is sine qua non to development" explains it's President. "Growth in the financial sector has been enabled by fintech and impacted businesses with regards to the ease of financial transaction, payments and so much more. Finance is the blood of the business, driving access to finance and helping to boost aggregate demand and investment."

Mrs. Toki Mabogunje is its third female president and very clear about the priorities she will set. "LCCI has 24 sectoral groups covering all sectors of the economy. These groups articulate the concerns of the business community and also generate issues for advocacy that help in stimulating policy change and direction as it concerns the private sector. The activities of these groups have resulted in policy formulation and execution. For instance, advocacy initiatives by the chamber resulted in reforms at the Lagos ports. It has facilitated monetary policy changes such as improved access to credit particularly for SMEs, exchange rate management, etc. Activities of the sectoral groups within the chamber have impacted positively on the Nigerian business community".

From pointing out the impact of border closures on inflation to collaborating with the Nigerian Communications Commission, since mid-December when she took the reigns the Chamber has aggressively persevered. "Technology is a catalyst for business growth. It is, therefore, important for businesses to embed technology as a core driver of growth, to gain global competitiveness and enhance profitability. Businesses must embrace technology for improved operational performance. We at LCCI acknowledge this fact and therefore strive to leverage technology in carrying out our activities as a leading Chamber of Commerce in Nigeria."

Over the past thirteen decades, LCCI has remained the leading voice of the private sector through its sustained public policy advocacy, stakeholders' engagement, and trade promotion activities. Its primary objective of the Chamber is to promote, support or oppose legislative or other measures affecting trade and of course fintech. It represents the opinion of the business community and the economy as a whole. "The activities of the chamber over the years have been apolitical and non-partisan. We have often time align with the efforts of the government in promoting commerce and collaborated with the business community without showing a bias for any political parties", explains Mrs. Mabogunje.

Toki Mabogunje
PRESIDENT, LCCI

> *"Finance is the blood of the business, driving access to finance and helping to boost aggregate demand and investment.*
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As the representative organ of the business community, the Chamber is a leading voice of the Organised Private Sector in Nigeria. It maintains regular consultations on policies and measures affecting business and the economy and makes representations to the Federal Government on issues of interest to the business community, states, and the economy. It is a multi-pronged effort that is rewarded with actual results. Nigeria has climbed the ease of doing business index by 40 positions in the past five years. Much work has been done on important infrastructure issues such as security, telecoms, energy and legal frameworks that encourage private initiatives. From trade delegations and building international relations to training events and collaboration with governments, the LCCI has always been there for business.

As Mrs. Mabogunje, the youngest ever female President of the LCCI puts it, "Our role as a Chamber of Commerce has always been to ensure that we are always at the forefront of bringing all actors together. While we acknowledge that this is not an easy task, however, we have over the years gained the needed reputation and integrity that commands respect in the Nigerian economy. The LCCI has been in existence for over 131 years and is the foremost Chamber of Commerce in West Africa and the second oldest chamber in Sub-Saharan Africa. This gave the Chamber the advantage to constantly engage the government and relevant agencies until results are obtained for the benefit of the generality of the business community."

FinTechNGR
FINTECH ASSOCIATION OF NIGERIA

Fintech to the rescue

The only thing more impressive than the growth and innovation of Nigerian fintech companies is perhaps the confusing array of misinformation and exaggeration regarding these very same organizations. Multiple trendy buzzwords are thrown in for good measure and hyperbole about the disruption to the world economy brought about by their operation. If ever there was a clear need for an ecosystem that supports all stakeholders, to help achieve growth but also to communicate more clearly, this is a prominent case for one.

The Chief Operating Officer of the Nigerian FinTech Association, Dr. Babatunde Obrimah, cuts through all this with ease. "We are 200 million people and almost 15% of these are financially excluded. This sector can only grow. The primary tool for the implementation of change is knowledge. People resist change when they do not have information." From mobile banking and peer-to-peer payments to distributed ledger technologies and digital currencies, fintech is attracting 60-70% of investments in technology. "Most companies in the sector right now are focusing on payment systems, only about 8% are in savings. I think that as financial inclusion is gradually achieved, we should also look at micro pensions, crowdfunding, and microinsurance", explains Dr. Obrimah. "It will become more common for small projects being driven through the capital market and all this will expand the economy."

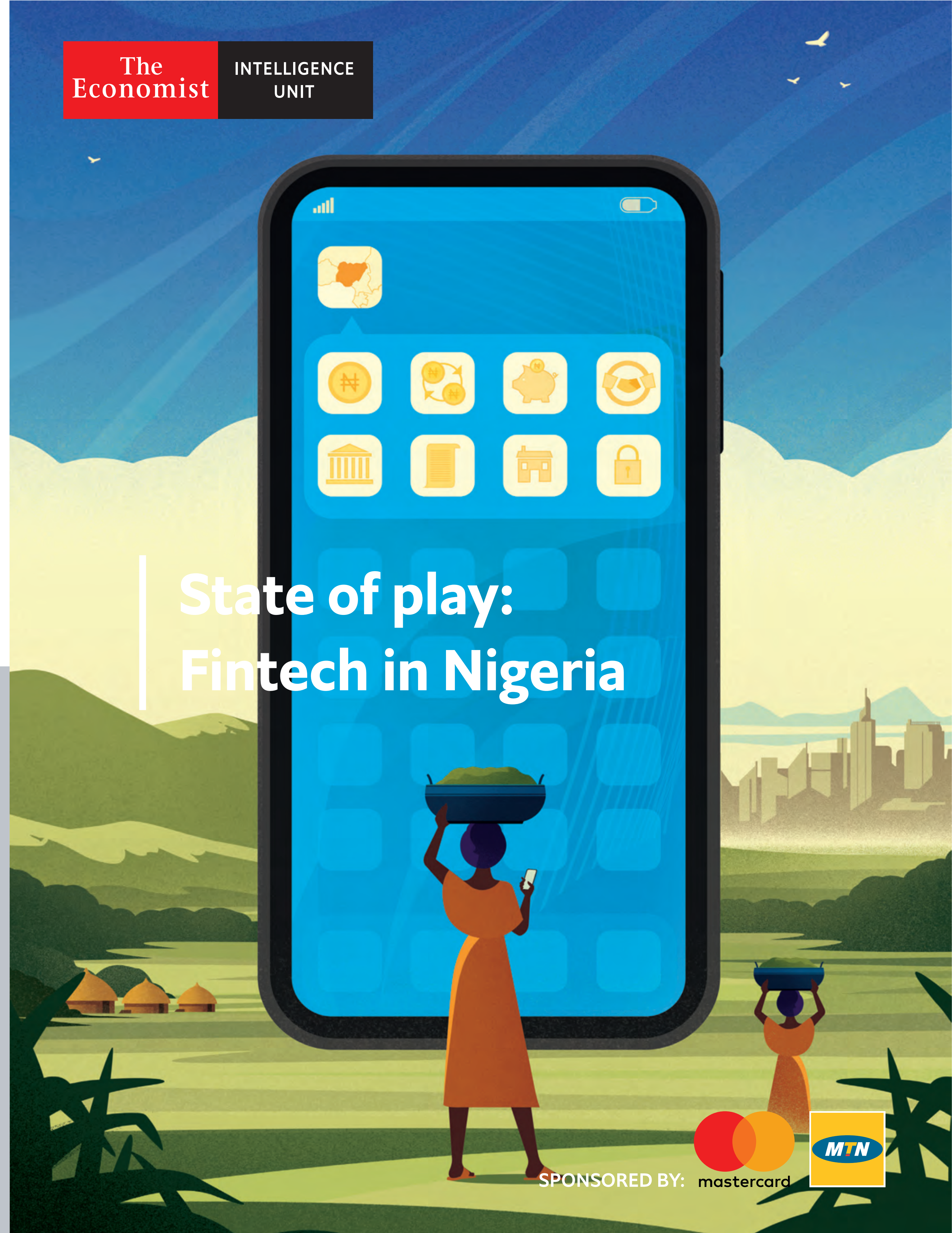
Regulators around the world are waking up to the immense possibilities and challenges this emerging sector poses with new laws and regulations. However, it is often becoming more important to understand them and work with them, making the work of the association extremely important to help introduce progressive regulations and the framework. "Since at the governmental level the realization that technology is emerging, and they need to prepare for it. This is a time when we can leverage existing opportunities and develop home-grown technology to solve our problems. Government is going to buy into the technology. They may be slow but all over the world government is reactive. Technology always moves faster than both regulators and governments. It is going to be a gradual process, but I think that I see government continually active in supporting technological developments."

By making the interaction between consumers and financial services more simple, easy and friendly, fintech offers significant potential to enhance efficiencies, reduce costs, modernize financial infrastructure, enable more effective risk management and expand access to financial services. "Everyone within the sector should connect. It could be fintech, agritech, EdTech, insurtech, we try to bring everybody into the same space. It is about encouraging everybody to search for new technologies and new solutions. We speed up this process to drive growth within the sector by advocating to regulators and lawmakers so we can achieve our objectives."

Fintech could offer solutions to some of the key drivers reducing risk or eliminate the need for corresponding banking relationships. The declining cost of internet services and growing mobile and smartphone penetration in developing countries also provide an excellent opportunity to promote financial inclusion amongst people who remain without access to formal financial services. Fintech and the traditional banking sector complement and learn from each other, forging new partnerships for the efficient delivery of financial services. There is legitimate concern about market competition. Few early entrants in the market could create monopolies as they get bigger in size with little or no competition. Too many entrants with similar services could crowd and confuse the market, making supervision difficult. "As an association, we have three objectives (Connect, Accelerate and Advocate) and six elements that drive these objectives. The first is to find talent and then develop the capacity for them. We have to link them to capital and markets, ensure that there is a progressive regulatory framework and then get government support for the whole system."

Dr. Babatunde Obrimah
Chief Operating Officer
FINTECH ASSOCIATION OF NIGERIA

"Disruption is the new Change. And the only thing that is consistent in our times is disruption. In any fintech event, there is something new to learn, technology will keep evolving. Change will keep occurring on a daily basis. We must focus on technology on all levels, from the government down to the private sector as the country wakes up after our reliance on oil. Technology is changing. Electric cars and other new shifts are what we need to look out for. Technology is the way to go for Africa as a whole. It's either we innovate or die."



State of play:
Fintech in Nigeria

About this research

State of play: Fintech in Nigeria is an Economist Intelligence Unit report, sponsored by Mastercard and MTN Group. The report examines key trends in the fintech sector in Nigeria and assesses both industry drivers and impediments to further growth.

This report combines extensive desk research and insights from interviews. We conducted in-depth interviews with industry experts and executives at regulatory bodies and fintech firms. The interviews were conducted in January and February 2020. Our sincerest thanks go to the following participants (listed alphabetically) for their time and insights:

Emmanuel Agha, CEO, Innovectives

Denis Barrier, co-founder and CEO, Cathay Innovation

Olayinka David-West, senior fellow, Lagos Business School

Khaled Ben Jilani, senior partner, AfricInvest

Musa Jimoh, director, payment system management, Central Bank of Nigeria

Babatunde Obrimah, chief operating officer, Fintech Association of Nigeria

Kenechi Okeleke, senior manager, GSMA Intelligence

Emmanuel Quartey, head of growth, Paystack

Ham Serunjogi, co-founder and CEO, Chipper Cash

Adam Green is the author of the report and Melanie Noronha is the editor.

Executive summary

Nigeria, Africas largest country by GDP and population, is among the continents fintech leaders with a lively crop of start-ups and a growing suite of digital offerings from mainstream banks. Fintech revenues are forecast to reach an estimated US$543m by 2022, driven by increasing smartphone penetration and its unbanked population.

What solutions are Nigerian fintech providers focusing on? How healthy is the broader ecosystem in terms of venture capital investment, skills and the regulatory environment? What are the key challenges and bottlenecks facing the country as its fintech sector matures? This report, based on desk research, data analysis and expert interviews, traces the evolution of fintech in Nigeria.

Key findings of the report:

Nigerian fintechs are branching out from payments into lending, micro-investment, wealth management, peer-to-peer transfers and insurance. Payments and remittances are the most developed sub-sector to date. The country has seen a surge of new and simplified apps to help merchants, businesses and consumers. Mainstream banks, initially slow to react to the digital era, have quickly adapted to offer apps and tools in areas like loans, while non-traditional playersincluding telecom companies and retailers such as supermarketsare entering the finance space.

Nigerias regulatory environment balances innovation and consumer protection but must continually evolve to respond to market dynamics. The Central Bank of Nigeria has passed laws and regulations to promote digital payments and allow more actors to enter the space, boosting competitiveness and consumer choice. But it is balancing these with consumer protections through its cybersecurity framework and data protection regulation. Recent reforms, such as easing entry of start-ups into the capital markets and the creation of a fintech sandbox, could also lead to an enrichment of the ecosystem. While there is no fintech-specific law as yet, a sector roadmap provides overarching direction to the industry. A legal framework may prove necessary to manage the emergence of new types of fintech and accelerate fintech solutions for insurtech and wealth management.

To develop and flourish, Nigerian fintech needs to address shortcomings in the broader ecosystem. While venture capital investment is forthcoming, the majority comes from abroad with Nigerian investors currently playing a small role. As the sector matures, skills gaps are emerging outside of product development in areas such as business management and marketing. Given the challenges that fintechs in all markets are facing in terms of profitability, expertise in business management and corporate governance is needed. Some experts question whether fintech has truly moved the needle on financial inclusion, believing that it is easing financial transactions for those already in the system. But the jury is still out. Although a causal link with the rise of fintech is unclear, surveys conducted by Enhancing Financial Innovation and Access, a financial sector development organisation, reveal that the percentage of financially-excluded adults in Nigeria reduced from 41.6% in 2016 to 36.8% in 2018.

Introduction: Fintechs surge

Globally, the fintech sector is among the most appealing for investors looking for the next wave of disruptive innovation. Digital neo-banks are expanding their market share, especially among younger consumers, while bespoke apps and platforms are taking once-elite financial services, such as stock market investing, into the mainstream. Total investment activity globallycombining venture capital, private equity and merger and acquisitionsreached a peak of US$120bn in 2018, up from US$51bn in 2017.[1]

Africa can lay claim to having laid the foundations of fintech with the mobile money revolution springing out of Kenya back in 2007. Today, it remains a front-runner in financial innovation: The number of fintech companies in Africa grew at an annual rate of 24% between 2009 and 2019, fuelled mostly by Nigeria, Kenya and South Africa.[2]

Ham Serunjogi, co-founder and CEO of Chipper Cash (which entered the Nigerian market in September 2019), describes the country as one of the more mature fintech and tech markets in Africa. It has definitely been a pioneer and a leader on many fronts, with a lot of great companies. Ive been impressed by how theyve grown and the problems theyve solved. Fintech revenues are forecast to grow from US$153m in 2017 to US$543m by 2022, driven by expanding payment services, the e-commerce market and rising smartphone penetration.[3]

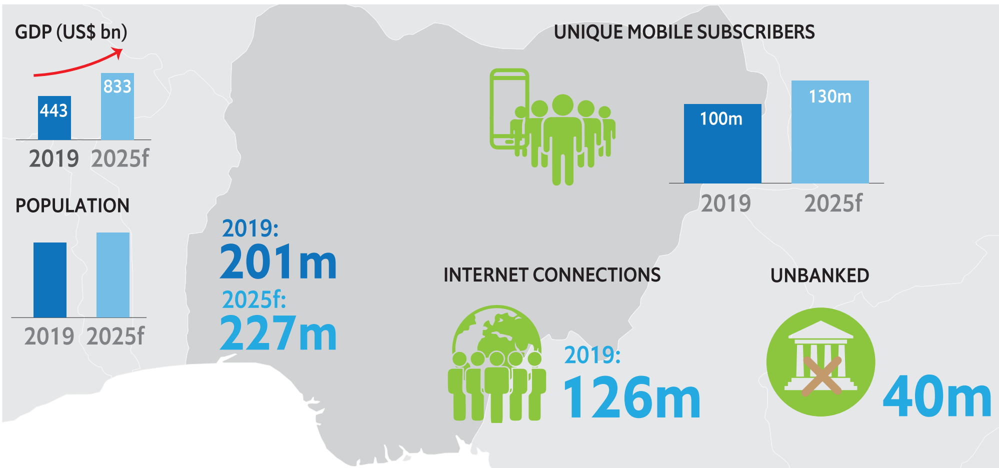
While unique subscriber penetration was at 50% in Nigeria at the end of 2019less than peers like South Africa and Ghanain absolute terms that still amounts to 100m unique subscribers. That is South Africa, Kenya, Ghana and Cote dIvôire put together, which gives you an idea of the size of the market of mobile and the impact it could have

[1] The Pulse of Fintech H119: Biannual global analysis of investment in fintech, *KPMG*, July 31st 2019. https://home.kpmg/au/en/home/campaigns/2019/07/pulse-of-fintech-h1-19-global-trends.html
[2] Africas fintech landscape has grown at an annual rate of approximately 24% over the last 10 years, *EY*, January 17th 2019. https://www.ey.com/en_za/news/2019/01/africa-fintech-landscape-has-grown-at-an-annual-rate-of-approximately-24-over-the-last-10-years
[3] Digital Market Overview: Nigeria, *Frost & Sullivan*, 2018. https://ww3.frost.com/files/9215/2871/4691/Digital_Market_Overview_FCO_Nigeria_25May18.pdf

on growth of tech services, says Kenechi Okeleke, senior manager at GSMA Intelligence, the mobile industry association. That number is forecast to rise to 130m by 2025.[4] Nigeria also has around 126m active internet connections according to the countrys Communications Commission.[5]

Importantly, discussions on fintech in Nigeria often centre on its potential to drive financial inclusion. As of 2018, 37% of the adult population was unbanked according to a survey conducted by Enhancing Financial Innovation and Access (EFInA).[6] Insufficient bank branches and ATMs have impeded greater financial inclusion: for every 100,000 adults, Nigeria has 4.3 bank branches compared to 5 in Kenya, 8.6 in Ghana and 10.1 in South Africa.[7] Consumers also continue to face difficulties with securing a biometric bank verification number (required since 2014 to open bank accounts and keep them active) and high service fees make financial services unaffordable. The unbanked in Nigeria could be an attractive pool of potential consumers for fintech firms who are able to effectively reach them.

Figure 1: Key drivers for fintech in Nigeria



Source: The Economist Intelligence Unit; EFInA; GSMA

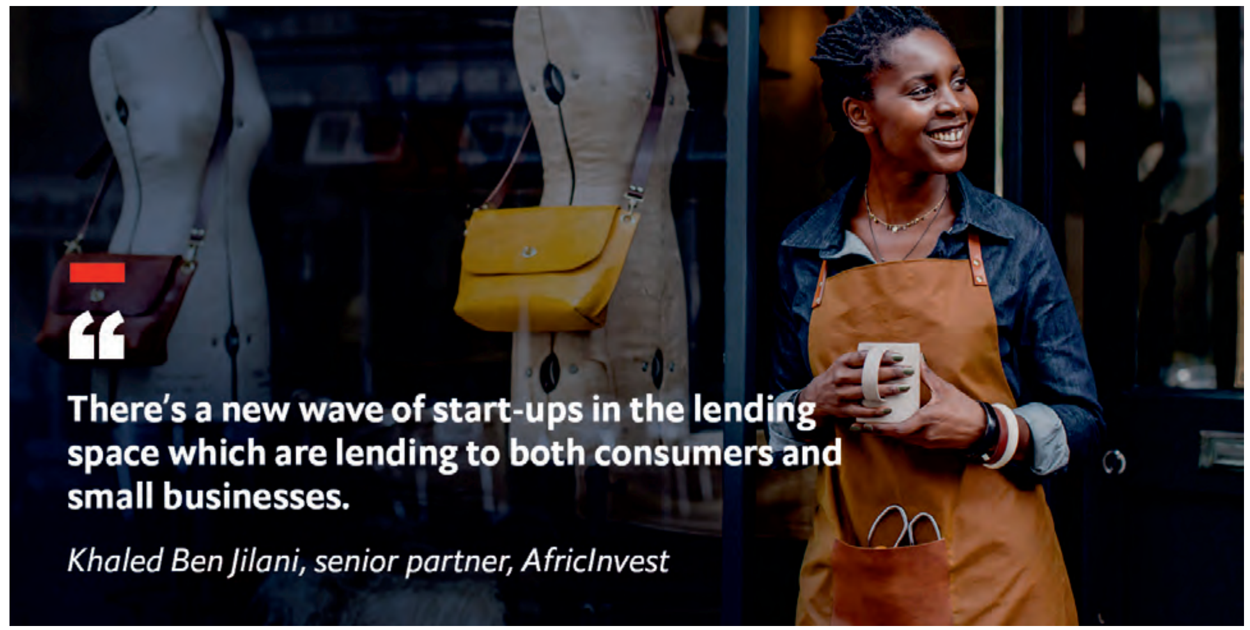
Fintechs expanding use cases

Payments and remittances are the most developed sub-sector, with a surge of new and simplified apps emerging. Start-up payment processing firm Interswitch pioneered the infrastructure to digitise the cash economy in the 2000s. Today, it provides much of the tech wiring for Nigerias online banking system as well as personal and business financial products. These include its Verve payment cards and the Quickteller app, which allows users to transfer money, pay bills and buy mobile and internet data. Flutterwave, the Nigerian-owned, San Francisco-headquartered start-up, provides a payment tool for businesses. It focuses particularly on helping Africans build global businesses by accepting payments from anywhere in the world and recently raised US$35m to expand across Africa.[8] Other companies, such as Chipper Cash, focus on personal cross-border payments, akin to Venmo, a digital wallet popular in the US.

Nigerian fintechs are expanding into lending. There has been a marked increase in **mobile lending** products targeting the small and medium-sized enterprise (SME) and retail sectors. These products allow users to apply for loans online (mostly without the need for collateral) and use advanced technologies such as machine learning for credit analysis.[9]

Theres a new wave of start-ups in the lending space which are lending to both consumers and small businesses, explains Khaled Ben Jilani, senior partner at private equity investor AfricInvest. The payment services have built up data that allow these start-ups to develop models of creditworthiness, for either people or companies, in a continent where there is very little data about peoples credit ratings because they never had formal access to the financial sector.

Another example is Lagos-headquartered Carbon (formerly Paylater), which offers access to credit, simple payments solutions, investment opportunities and tools for personal financial management. In 2019, its parent company OneFi became the first



[4] Spotlight on Nigeria: Delivering a digital future, *GSMA*, 2018. https://www.gsma.com/publicpolicy/wp-content/uploads/2019/02/GSMA-Spotlight-on-Nigeria-Report.pdf
[5] Industry Statistics, *Nigerian Communications Commission*, 2020. https://www.ncc.gov.ng/stakeholder/statistics-reports/industry-overview#view-graphs-tables-5
[6] Key Findings: EFInA Access to Financial Services in Nigeria 2018 Survey, *Enhancing Financial Innovation and Access*, December 11th 2018. https://www.efina.org.ng/wp-content/uploads/2019/01/A2F-2018-Key-Findings-11_01_19.pdf
[7] Data, *The World Bank*, 2019. https://data.worldbank.org/indicator/FB.CBK.BRCH.P5
[8] Ruth Olurounbi, Nigeria Payment Firm Flutterwave Gets $35 Million Funding, *Bloomberg*, January 21st 2020. https://www.bloomberg.com/news/articles/2020-01-21/nigeria-payment-firm-flutterwave-gets-35-million-funding
[9] Nigeria: Fintech 2019, *ICLG*, May 10th 2019. https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria

African fintech company to secure a credit rating. A growing array of personal savings solutions are available on mobile phones from both fintechs and major banks.[10]

In response, mainstream banks are digitising their own offerings, collaborating with start-ups or developing their own solutions says Babatunde Obrimah, chief operating officer at Fintech Association of Nigeria. He highlights Lagos-headquartered Guaranty Trust Bank as a lead player. It has launched a data centre and is developing interactive and intelligent bots to deliver faster, more personalised services.[11] Other banks have invited fintechs to develop a variety of solutions. One example is First City Monument Bank, which put out a tender for payroll solutions. This led to the launch of a new platform in 2019.[12, 13]

Emmanuel Quartey, head of growth at Paystack, the Nigerian payments gateway, says mainstream banks have upped their pace over the past year especially. When the first wave of digital lenders like Carbon launched, I dont think banks were worried, but within the past 12 months banks have launched competitors in the form of digital mobile apps. Examples include Quick Credit by Guaranty Trust Bank, Credit Direct by FCMB, and Specta by Sterling Bank.

Wealth management platforms are another hot prospect. Brands like Cowrywise are bringing online investment products to Nigerias middle class. Others are offering **retail investors** the chance to earn profits from the countrys agricultural sector: Farmcrowdy lets investors back businesses, be it a ginger trader in Kaduna state or a poultry farm is Osun, and offers returns of up 12% over six months.[14]

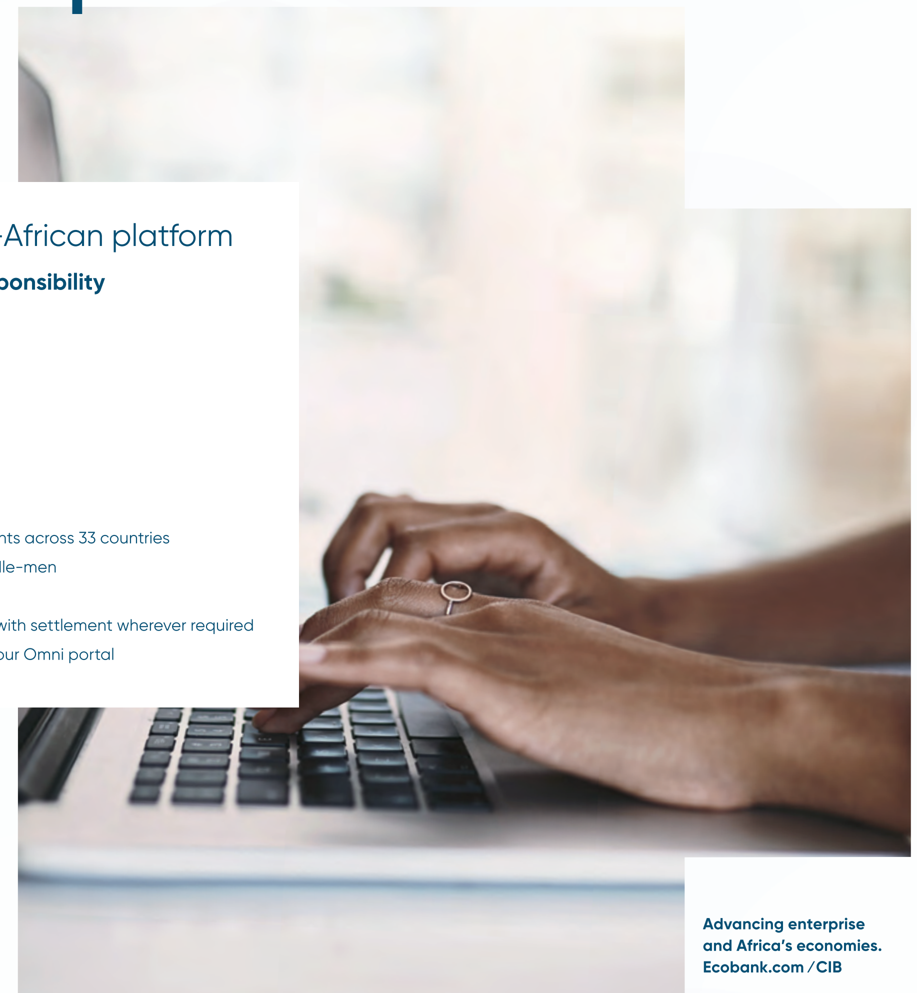
Digital insurance, or **insur-tech**, is also taking root.[15] Cassava Smartech offers auto, education and health coverage including funeral costs with prices as low as US$0.50 a month. But insur-tech has moved faster in Ghana and Kenya than Nigeria, claims Mr Okeleke of GSMA Intelligence. This is partly a reflection of cultural differences, he explains, as Nigerians often under-insure themselves.

Figure 2: Fintech solutions

Payments and remittances | Mobile lending | Digital banking | Wealth management | Insur-tech

Source: The Economist Intelligence Unit.

[10] Nigerias OneFi secures first ever credit rating for an African Fintech, *CNBC Africa*, January 8th 2019. https://www.cnbcafrica.com/videos/2019/01/08/nigerias-onefi-secures-first-ever-credit-rating-for-an-african-fintech/
[11] Guaranty Trust Bank is harnessing technology to drive inclusivity, *World Finance*, July 18th 2019. https://www.worldfinance.com/banking/guaranty-trust-bank-harnessing-technology-to-drive-inclusivity
[12] Overview and Lessons Learnt from Global FinTech Landscape: Nigerian FinTech landscape, *Enhancing Financial Innovation and Access*, December 2018. https://www.efina.org.ng/wp-content/uploads/2019/04/EFInA-FinTech-Report-Global-and-Nigeria-Landscape.pdf
[13] FCMB launches payroll solution for SMEs, *Financial Nigeria*, October 28th 2019. http://www.financialnigeria.com/fcmb-launches-payroll-solution-for-smes-sustainable-photovideo-details-1186.html
[14] https://www.farmcrowdy.com/
[15] Obasan Taiwo James-Yakub, Everything you need to know about FinTech in Nigeria, *Medium*, November 8th 2019. https://medium.com/@Afroconomist/everything-you-need-to-know-about-fintech-in-nigeria-69164f66e992



State of play:
Fintech in Nigeria

Insurance has always been a small sector in financial services in Nigeria. Individuals tend not to do insurance. For big players, their main market has been the corporate sector. The Nigerian non-life insurance market was estimated to be worth US$0.8bn in 2016 compared with US$1.1bn in Ethiopia, US$1.2bn in Kenya and US$8.1bn in South Africa.[16]

It is important to note that the evolution of Nigerias fintech sector has been guided by regulatory and policy developments. In the next chapter, we will explore how these changes have supported the early stages of fintech and how regulators are crafting appropriate regulation for the next wave of growth.

[16] Africa Insurance Barometer 2018: Market Survey, *African Insurance Organisation*, 2018. https://pulse.schanz-alms.com/files/media/files/aac2d1e0123a5b5f5df7008326f20a3a/Africa_Insurance_Barometer_WEB_E.pdf

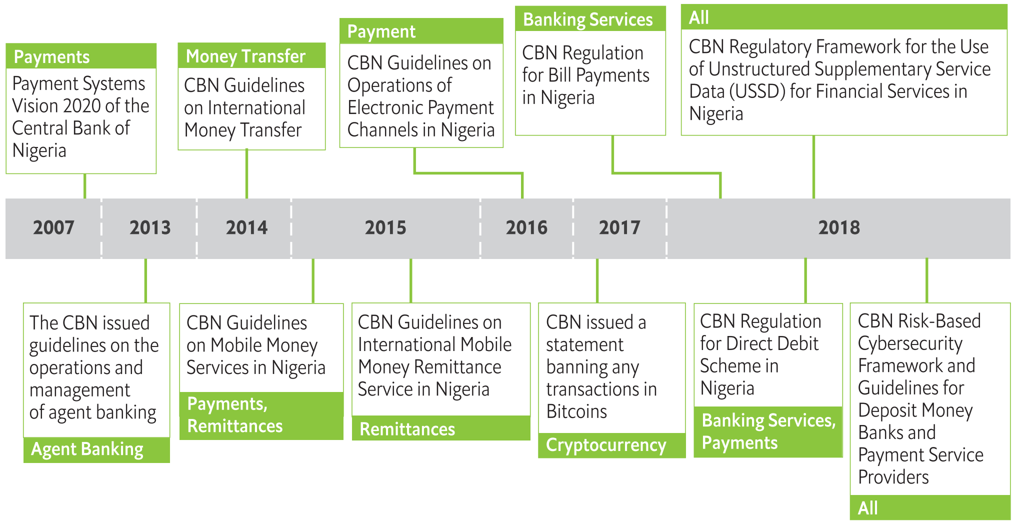
Chapter 1: Unlocking Nigerian fintech

Regulators can make or break fintech, but balancing creativity with consumer protection is no mean feat. While enabling businesses to make e-payments and operate in a digital ecosystem, regulators must also protect consumers and businesses from financial crimes, including fraud and money laundering. The anonymity that certain fintech solutions (such as digital payments) allow run counter to regulators priorities. Theres always a balance to strike and there will always be tension between those two things, says Mr Serunjogi of Chipper Cash. But considering that Nigeria has many fintech companies, which are doing really well, that has to be the result of an environment that fosters it.

Although Nigeria lacks a single fintech law, it has a suite of regulations that cover relevant issues and provide entry points. The Payments System Vision 2020, launched by the Central Bank of Nigeria (CBN) in 2007, marked the beginning of this curve by recommending that electronic payments be boosted.[17] It was followed, according to one report, by a material increase in mobile and electronic payments.[18]

Crucially, the CBN sees fintechs as stakeholders in driving financial inclusion, says Musa Jimoh, CBNs director of payment system management. In 2012, it published the National Financial Inclusion Strategy, setting

Figure 3: A suite of fintech regulations and policies in Nigeria



Source: The Economist Intelligence Unit

[17] Nigeria: Fintech 2019, *ICLG*, May 10th 2019. https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria
[18] Nigeria: Fintech 2019, *ICLG*, May 10th 2019. https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria

recruitment and management so that fintech firms do not have to secure multiple licenses for related activities.

Yet there are still some constraints. The raft of regulations that apply to various fintech solutions are often overseen by different authorities, including the CBN, the Securities and Exchange Commission (SEC) and the Nigeria Communications Commission. Fees to gain a financial services license remain high, says Mr Obrimah, with the minimum sum at N50m (US$139,000): Someone coming out of school, who is tech-savvy and develops a solution, where will they raise that? Money-laundering rules may also be too onerous for smaller fintechs to comply with, according to Frost, a consultancy.[23]

A fintech-specific regulation may be in the offing. CBN officials have told local press they are developing a dedicated regulatory framework for the fintech sector and the Nigerian SEC launched a Fintech Roadmap Committee (FRC) to examine barriers to entry and regulatory hurdles, observing that the unclear regulatory environment for fintech in the Nigerian capital market has inhibited the growth of the sector.[24]

The FRCs 2019 report has already identified areas of concern, including weak cyber security. The digital nature of fintech itself exposes consumers to identity theft and fraudulent transactions through phishing emails and chatbot hijacking, among other methods. The CBNs cybersecurity framework offers guidance to payment service providers and deposit money banks on cyber risk management procedures. These include designating a chief information security officer, identifying potential vulnerabilities and developing a strategy to tackle security breaches.

Fintech firms are also constrained by limited access to consumer data as a result of the Nigeria Data Protection Regulation of 2019. Although this is aimed at protecting consumers, the FRC recommends that regulators develop fintech-oriented data privacy policies, which could also prevent data provider monopolies.[25] The report also addresses the current ban on cryptocurrencies, recommending that they be classified as commodities or securities rather than currencies.

The fintech roadmap promises to address emerging issues like crowdfunding. Lots of companies are collecting funds for projects in agriculture; you can invest in a hectare of maize or pineapple for instance and get a return on a quarterly or annual basis. But these are unlicensed activities currently, says Mr Obrimah. In addition, the CBNs proposed

[23] Digital Market Overview: Nigeria, *Frost & Sullivan*, 2018. https://ww3.frost.com/files/9215/2871/4691/Digital_Market_Overview_FCO_Nigeria_25May18.pdf
[24] CBN emphasizes Fintech regulation, tasks Fintechs on inclusion, *Nairametrics*, October 30th 2019. https://nairametrics.com/2019/10/30/cbn-emphasizes-fintech-regulation-tasks-fintechs-on-inclusion/
[25] Olayanju Phillips, Highlights of the Report on the Future of FinTech in Nigeria, *S.P.A. Ajibade & Co.*, February 12th 2020. http://www.spaajibade.com/resources/highlights-of-the-report-on-the-future-of-fintech-in-nigeria-olayanju-phillips/#_ftn5

the financial inclusion target to 80% by 2020 (revised in 2019 to 95% by 2024).[19] Since then, the CBN has taken several steps to boost the industry and encourage the shift to digital payments, including introducing charges on large cash-based transactions to reduce the amount of physical cash.[20]

To meet the more aggressive 2024 target, the CBN has recently reduced charges on a number of banking services. In addition, a recent step forward was the creation of licenses for bank and non-bank mobile operators to provide mobile payment services.[21] Eligible applicants for Payment Service Bank (PSB) licenses include banking agents, telecommunications companies, retail chains (like supermarkets), mobile money operators, courier companies and postal service providers.[22] In September 2019 the CBN approved three PSB licenses in principle which allow entities to accept deposits, facilitate payments, handle the sale of foreign currencies from inbound cross-border personal remittances and operate an electronic wallet. Lending activities are not permitted under PSB licensing.

The numerous licenses related to payments and money transfers are also being consolidated under three Payment Service Providers (PSP) licenses: PSP Super License, PSP Standard License and PSP Basic License. Each offers different combinations of activities including transaction clearing, switching, mobile money operations and agent

[19] James Emejo, Nigeria: Restoring Sanity to Bank Charges, *This Day*, December 19th 2019. https://www.thisdaylive.com/index.php/2019/12/29/restoring-sanity-to-bank-charges/
[20] Cash-less Nigeria, *Central Bank of Nigeria*. https://www.cbn.gov.ng/cashless/
[21] FinTech in Nigeria: Understanding the value proposition, *KPMG*, November 2016. https://assets.kpmg/content/dam/kpmg/ng/pdf/ng-fintech-in-nigeria-understanding-the-value-proposition.pdf
[22] Bassey Udo, Nigeria approves three new Payment Service Banks, *Premium Times Nigeria*, September 18th 2019. https://www.premiumtimesng.com/business/financial-inclusion/353094-nigeria-approves-three-new-payment-service-banks.html

Electronic Transaction Bill seeks to promote e-commerce in Nigeria by eliminating legal barriers and harmonising legal rules on e-payments.[26] Digital banking licenses are also much sought after as more fintech firms seek to follow in the footsteps of Kuda, Nigerias first digital-only bank.[27]

Staying ahead of the curve

In every market, innovation precedes regulation, states Emmanuel Agha, CEO of Innovectives, a licensed super-agent offering agent-banking and e-payment services through a network in Nigeria. Our regulators should be forward-thinking in coming up with regulation that would [create] opportunities.

Where existing regulations do not apply to new fintech firms, regulators around the world are taking a proactive approach. Sandboxes, a controlled environment in which innovative fintech products are trialled under a regulators supervision, have been one successful approach among policy leaders including the UK, Singapore and Estonia.

In Nigeria, Financial Service Innovators launched the Financial Industrial Innovation Sandbox in December 2019, supported by N250m (US$690,000) in multi-year grants from Flourish, a venture capital firm, and EFInA. Financial Service Innovators, chaired by Flutterwave co-founder Iyinoluwa Aboyeji, is a community of innovators backed by the Nigeria Inter-Bank Settlement System and the CBN. It aims to lower entry barriers into the fintech space with regard to regulation and licensing. Promoting diversification, promoting innovation through fintech companies is very dear to us, says Mr Jimoh of the CBN. Thats why were pushing regulation that will create an enabling environment for fintech in Nigeria.

The FRC recommends that all fintech start-ups should be encouraged to set up under this sandbox rather than having different sandboxes under individual regulators.

[26] FinTech in Nigeria: Understanding the value proposition, *KPMG*, November 2016. https://assets.kpmg/content/dam/kpmg/ng/pdf/ng-fintech-in-nigeria-understanding-the-value-proposition.pdf
[27] Nigerian FinTech Kuda Raises $1.6M For Digital Banking Tech, *PYMNTS*, September 11th 2019. https://www.pymnts.com/news/investment-tracker/2019/nigerian-fintech-kuda-funding-digital-banking/

Chapter 2: The fintech ecosystem

Regulators alone do not make a fintech ecosystem. Self-organising networks and organisations are also key to connecting talent and nurturing promising companies. Nigeria is home to tech incubators and accelerators, including the Co-Creation Hub and Passion Incubator. The Lagos State Government has made efforts to foster a community of tech start-ups in Yaba, while the Federal Government has promised to establish six innovation hubs across the country, including in Lagos and Abuja.

But while use cases are widening, investment is flowing and regulations are modernising, the Nigerian fintech ecosystem still faces many challenges on the road to maturity. Access to local capital is limited, digital infrastructure is weak and entrepreneurs business management skills need to improve. In this chapter, we will assess the state of these central elements of Nigerias fintech ecosystem.

Investment capital

Encouragingly, Nigerian companies are proving a draw for investors, and particularly for venture capital (VC) firms. According to French VC fund Partech, Nigerian tech start-ups raised US$306m over 26 deals in 2018, driven mostly by fintech.[28] WeeTracker, which produces an annual funding roundup, reports that Nigerian fintechs raised US$679m in 2019 but this includes internationally-headquartered companies that have raised investment to operate in Nigeria.

Figure 4: Select funding rounds for fintech firms in Nigeria (2018-2019)

US$10m for Flutterwave, (payments platform)
US$10m for Paga (payments platform)
US$8m for Paystack (payments platform)
US$6.9m for Lidya (digital lending)
US$5.5m for TeamApt (digital banking and payments infrastructure)
US$20m for Migo (credit scoring service)
US$8.4m for Chipper Cash (cross-border money transfers)

Source: Partech; WeeTracker

The Cathay AfricInvest Innovation fund, launched last year, is the first pan-African VC fund with offices across nine countries. It aims to raise US$170m and is the product of a partnership between AfricInvest, the biggest private equity company on the continent, and Cathay Innovation, a global VC fund focused on digital start-ups. While much of Africas VC funding has traditionally come from regional African funds (or funds operating from hubs both within and outside Africa), its founders note that pan-African funds will help start-ups grow across borders.[29] Their interest lies in start-ups grown on the continent rather than those investing from outside. In Nigeria, you need to have an understanding of the local market and the context, because the dos and donts are different. Thats why we like to invest in Nigerian companies, explains AfricInvests Mr Ben Jilani.

Yet while Nigeria is not short of deals and VC interest, much of the capital is coming from abroad. Mr Obrimah of the Fintech Association of Nigeria says that 99% of investment is coming from outside of the country, mostly

[28] 2018 was a Monumental Year for African Tech Start-ups with US$1.163B raised in equity!, *Partech*, March 22nd 2019. https://partechpartners.com/news/2018-was-monumental-year-african-tech-start-ups-us1163b-raised-equity/
[29] Denis Barrier, Connecting African Entrepreneurs to the world with the first Pan-African Venture Capital Fund, *Medium*, April 9th 2019. https://medium.com/cathay-innovation/today-we-are-extremely-excited-and-proud-to-announce-that-africinvest-and-cathay-innovation-are-456d96cc0254

from the US and Asia. The typical Nigerian investor wants a stable environment and a quick return. They dont have the patience [for fintech].

To boost SME access to capital the Nigerian stock exchange recently launched the Nigerian Growth Board.[30] This allows Nigerian start-ups with three years in business and turnovers of N50m or more to raise funds for expansion. This is a good development that allows young companies to raise capital, says Mr Obrimah. Lets see how the market reacts.

The skills conundrum

Within the skills ecosystem, Olayinka David-West from the Lagos Business School believes there are deficits in areas like business management, marketing and communications. Business expertise, rather than just technical coding knowledge, is crucial if fintechs are to generate the revenues they need to sustain themselves, particularly as they push towards zero-rated transactions costs and fees. What will their income model look like vis-a-vis their costs, capital-raising, expenditure marketing and all of that? asks Ms David-West.

According to Paystacks Mr Quartey, marketing roles are some of the hardest to fill.

Finding someone articulate who understands how to bring a product to market and create strong engagement and retention, is tough. Much of the current training out there is around teaching people how to code. We are now seeing a new wave of focus on product management. I think the next wave will be a focus on branding and marketing. Over time, as start-ups scale up and seek more funding, corporate governance know-how will also become increasingly important.

In addition, Mr Quartey argues that fintech poses unique skills challenges compared to other tech domains. One example is compliance. There are very strong compliance requirements you need to meet in order to run a fintech. If you are building a photo-sharing app its easier to have a team of mostly engineers. But in fintech, you need a team focused on compliance as well as fraud, so thats something you have to build out too.

Brain drain is a perennial challenge. EFInA, a Nigerian financial sector development organisation funded by the UKs Department for International Development, notes that Nigeria is losing technical specialists to more developed markets, widening the skills gap. Ms David-West is concerned by the outflow of talent in Nigeria across the business landscape. The pool of employable talent emigrating to places like Canada scares me. My question for corporate Nigeria is, what is our replacement strategy for these workers?

She does see reason for hope in the Africa Continental Free Trade agreement, a new initiative covering an area from Morocco to South Africa which represents a market of 1.3bn people and GDP of US$2.6trn. Even if you dont have local talent, we can now get pan-African talent moving across different markets, she says.

[30] NSE Growth Board, *Nigerian Stock Exchange*, 2019. http://www.nse.com.ng/issuers/listing-your-company/growth-board

State of play:
Fintech in Nigeria

Financial inclusion: The jury is still out

Ms David-Wests broader concern, beyond skills, is whether fintech is solving the financial inclusion challenge facing Nigeria. To do this, fintech firms will need to reach people currently excluded from the financial system as a result of insufficient bank branches, high service fees, stringent identity verification and financial illiteracy.

Yet most fintech solutions are deployed on cellular phones or smartphones that require an internet connection. According to the World Bank, only about 10% of unbanked Nigerians have access to both a mobile phone and some sort of internet connection, whether through phone, PC or internet cafe.[31] Many fintech services are broadly inaccessible when only half the population has 3G coverage and only 20% of Nigerians own a smartphone.[32] The launch of affordable smartphones manufactured and sold in Africa may help to address this issue.[33]

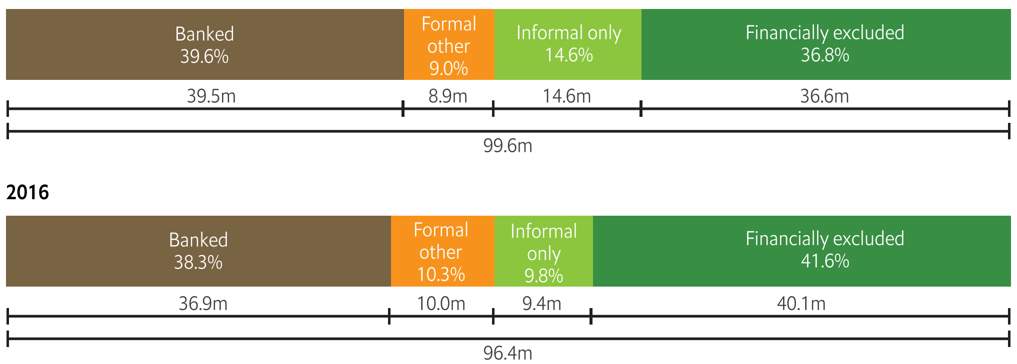
Meanwhile, it appears that fintech firms including unconventional players such as telecom companiesare relying on a physical agent and merchant network for the last mileto reach the unbanked in remote areas where it is too expensive for banks to set up branches. Through this network, they facilitate e-payments and banking services. Mr Agha, CEO of Innovectives, says that they have already created accounts for 750,000 people who were previously unbanked; their target over the next few years is to reach 3m more.

But even with a wide agent network, youre seeing that certain types of identification have been impeding more people from getting access to the bank account system, explains Mr Agha, citing the need for a bank verification number to use most fintech services. While we see growth in the volume of mobile transactions, these transactions are being conducted by those who already have existing banking relationships, comments Ms David-West. That really is a big challenge for the ecosystem in general. How do we bring more people into that pool? We need to be shooting for the mindset of inclusive fintech and creating new use cases.

There is also a large gender gap slowing progress on financial inclusion. Just over a quarter of adult females have a bank account compared with more than half of males, according to the World Bank. The gender divide is also replicated in male-dominated fintech itself according to Deloitte.[34] However, a new generation of female leaders is rising up in Nigerian fintechfrom Adia Sowho, vice president of growth at the credit start-up Migo to Cherry Eromosele, chief group marketing at Interswitchand could help to close the gap.

[31] The Global Findex Database 2017, *World Bank*, 2017. https://globalfindex.worldbank.org/
[32] Nigeria: Digital Economy Diagnostic Report, *World Bank*, 2019. http://documents.worldbank.org/curated/en/387871574812599817/pdf/Nigeria-Digital-Economy-Diagnostic-Report.pdf
[33] Cheryl Kahla, Mara Phone: A look at the proudly South African smartphone, *The South African*, October 18th 2019. https://www.thesouthafrican.com/tech/mobile/mara-proudly-south-african-smartphone-kzn/
[34] https://www2.deloitte.com/ng/en/pages/financial-services/articles/fintech-in-Nigeria-and-the-women-who-lead.htmlpdf

Figure 5: Financial inclusion in Nigeria



Source: EFInA surveys (2016 and 2018)

Women and fintech

A rising gender gap in financial inclusion suggests that men are the main beneficiaries of financial innovations. While the share of Nigerians with a bank account has increased, the divide between adult men and women rose from 7% in 2011 to 24% in 2017.[34]

Fintech has the potential to redress that imbalance by tackling barriers faced by women. Some services will do so indirectly simply by bringing services to the unbanked, which includes over two thirds of Nigerias women. [36] A smaller group of fintech innovators is targeting women specifically.

One example is Access Banks Better Mama, Better Pikin (BMBP), a mobile wallet offering micro-savings and health and life insurance to pregnant women.[37] Users must deposit as little as US$3 per month to gain medical insurance of up to about US$125 a year.[38] Another is a mobile money partnership between Stellar, an NGO, and the fintech service provider Oradian, which allows rural women to transfer money to one another without carrying around cash.[39]

Information on womens use of fintech services remains scant, however. Further monitoring of their uptake would help to inform policies and the design of products aimed at closing the gender divide.

[35] The Global Findex Database 2017, *The World Bank*, 2017. https://globalfindex.worldbank.org/
[36] The Global Findex Database 2017, *The World Bank*, 2017. https://globalfindex.worldbank.org/
[37] Exploring fintech solutions for women: Scoping paper, *Genesis Analytics*, 2018. http://mujeresinnovadoras.com/wp-content/uploads/2018/09/Exploring-Fintech-Solutions-for-Women.pdf
[38] Exploring fintech solutions for women: Scoping paper, *Genesis Analytics*, 2018. http://mujeresinnovadoras.com/wp-content/uploads/2018/09/Exploring-Fintech-Solutions-for-Women.pdf
[39] Gayle Tzemach Lemmon, New Tools Increase Womens Financial Inclusion in Nigeria, *Council on Foreign Relations*, December 1st 2016. https://www.cfr.org/blog/new-tools-increase-womens-financial-inclusion-nigeria

Conclusion: Betting on Nigerian fintech

Nigerias massive population, entrepreneurial workforce and crop of successful fintech start-ups could well place it at the leading edge of Africas financial innovation story. The venture community has validated the local talent pool and fintechs are proving that they are fit for market through year-on-year usage increases. Mainstream banks are also quickening their pace to fend off the threat of disruption by innovating their own products or partnering with start-ups and financial SMEs.

The regulatory environment, while not perfect, is well-regarded by companies and academic experts for its balancing of innovation with customer protection. Opening up licensing to new players, bringing down fees and charges and encouraging the business ecosystem by opening up access to capital markets are all signs of an accommodating legal environment that will increase competition. Ensuring that regulation keeps up with innovation by using sandboxes can support the next wave of fintech growth in Nigeria. But regulators must balance this with fighting financial crime (including money laundering and fraud) and ensuring data privacy and cybersecurity. A dedicated fintech law might add more specific rules in exciting but currently unregulated areas like crowd-investing, insurtech and wealth management.

The challenges facing Nigerian fintechs are in some respects common to those in other parts of the world. The path to profitability is often unclear among firms whose focus is on product excellence and rapidly expanding market share. Neo-banks in other markets, like Revolut (UK) and N26 (Germany), are yet to articulate a clear profit-model and their digital innovations could be easy for mainstream banks to copy in time.[40] As the ecosystem matures, skills gaps are emerging outside of programming and product development in areas like marketing, communications and business management. Corporate governance will need to be strengthened as start-ups scale up to compete for funding.

Lastly, it is still not clear if Nigerian fintech has moved the needle significantly on financial inclusion given its tendency to deepen engagement among those who are already banked. Efforts to improve financial literacy among consumers and SMEs will be essential to achieve greater inclusivity across the continent.

Yet these challenges can be overcome: a pan-African free trade agreement could improve talent mobility and regulatory alignment; innovation sandboxes will further refine the regulatory framework; and domestic success stories will only inspire new waves of fintech. In the end, fintechs themselves are betting on Nigerias business dynamism and the energy of its entrepreneurs.

[40] John Detrixhe, Digital banks are racking up users, but will they ever make money?, *Quartz*, August 1st 2019. https://qz.com/1679197/when-will-digital-banks-like-n26-and-revolut-start-making-money/

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